

PUBLIC DISCLOSURE

February 3, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**STATE BANK
10-31-2910
851659**

**P.O. BOX 187
PALMER, NEBRASKA 68864**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution=s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution=s record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of State Bank, Palmer, Nebraska, prepared by The Federal Bank of Kansas City, the institution=s supervisory agency, as of February 3, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but no necessarily all of the institution=s branches. The agency rate the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION=S RATING: *This institution is rated **Satisfactory**.*

State Bank=s overall performance with respect to the Community Reinvestment Act (CRA) is satisfactory based upon a review of the bank=s provision of credit, qualified investments and services to its assessment area. The bank primarily serves its assessment area through direct lending. The majority of the bank=s loans were within the assessment area. Furthermore, loans have been extended to customers of all different income levels and to businesses and farms of varying sizes. In addition to the bank=s reasonable lending level, the bank adequately provides investments and services in a manner consistent with its resources and capabilities.

The following table indicates the performance level of State Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	State Bank		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs Improvement			
Substantial Noncompliance			
* Note: The lending test is weighted more heavily than the investment and service test when arriving at an overall rating.			

DESCRIPTION OF INSTITUTION

State Bank has one main office located in the rural community of Palmer, Nebraska. The bank is a wholly-owned subsidiary of Pinnacle Bancorp, Inc., a bank holding company with assets of \$1.6 billion as of September 30, 1996. As of this same date, State Bank's assets totaled \$19,933M, of which 42 percent were loans. The bank's primary lending focus is agricultural loans.

The bank's performance under the CRA was last evaluated at the September 25, 1995 examination and was considered satisfactory.

DESCRIPTION OF ASSESSMENT AREA

State Bank has defined its assessment area as two block numbering areas (BNAs) in Howard and Merrick Counties and a BNA comprising all of Nance County, Nebraska. The assessment area is not in a metropolitan statistical area and consists of three middle-income BNAs. Palmer is located in Merrick County, approximately

25 miles north of Grand Island, Nebraska.

The area=s economy is heavily dependent on agriculture. Unemployment is low in the assessment area, at 2.6 percent, compared to 3.4 percent for rural Nebraska.

The Dinsdale Brothers are the largest employers with local businesses that include a grain elevator, a trucking company, a cattle operation, and several agriculturally-related manufacturing plants. There are four other financial institutions in the assessment area.

Total population for the area has remained relatively stable. The assessment area=s population is 8,780, based on 1990 U.S. Census data. Median family income for the area is \$25,756, and is 93.7 percent of the median family income for other rural areas within the state of Nebraska. The median family income annualized for 1996 is \$35,100. The following table depicts the assessment area distribution of households and families by income level, based upon 1990 U.S. Census data:

DISTRIBUTION OF HOUSEHOLD AND FAMILIES BY INCOME				
	<i>Household Income Summary</i>		<i>Family Income Summary</i>	
Income Category	Number	Percent of Households	Number	Percent of Families
Low-Income	622	19.2	442	18.3
Moderate-Income	633	19.6	508	21.0
Middle-Income	793	24.5	744	30.7
Upper-Income	1,187	36.7	726	30.0
Total	3,235	100.0	2,420	100.0

Compared to other rural areas of the state, the assessment area has a high number of moderate- and middle-income households. Moderate-income households were 19.6 percent of the assessment area households, compared to 16.8 percent of households in rural Nebraska. Middle-income households for the assessment area and rural Nebraska are 24.5 percent and 20.5 percent, respectively. Low- and moderate-income households combined represent 38.8

percent of the assessment area=s population.

Two community contacts, who were local businessmen, indicated that the assessment area has a shortage of available housing. Median age of the area=s housing stock is high, at 57 years, compared to 41 years in other nonmetropolitan areas of the state. Although housing prices have increased somewhat, the cost of housing in the assessment area is low, as indicated by an affordability ratio of 78.7 percent for the assessment area, compared to 58.9 percent for statewide rural areas. In addition, only 8.7 percent of persons pay more than 30 percent of their incomes for rent, compared to 23.2 percent of persons in other areas of rural Nebraska.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information includes performance characteristics that are described in Appendix A of the regulation. In addition, a peer group of similarly situated financial institutions was developed as a contextual reference by which to evaluate State Bank=s performance in the lending, investment, and services tests under the CRA. The group was identified on the basis of similarities in asset size and service area.

LENDING TEST

State Bank has the ability to meet the credit needs of its assessment area based on its size, financial condition, and resources. The bank offers an adequate number of credit products. The bank also makes a substantial majority of its loans in the assessment area. In addition, the distribution of borrowers reflects, given the products offered, good penetration among retail customers of different income levels and agricultural and business customers of different sizes. Furthermore, the bank exhibits a satisfactory record of serving the credit needs of low- and moderate-income individuals, small businesses, and small farms. Although the bank has limited opportunities for community development loans, the bank utilizes flexible lending practices in order to help meet assessment area credit needs.

Lending Activity

The bank is a conservative lender in a primarily agricultural-based community. The bank=s average loan-to-deposit ratio for the four previous quarters was 47.48

percent, compared to the state peer ratio at 67.32 percent and the national peer ratio at 61.30 percent. The state and national peers consist of banks having assets of less than \$100 million with one banking office and located in a nonmetropolitan area. In addition, the bank=s average loan-to-deposit ratio is somewhat lower than the assessment area=s peer group of banks which have loan-to-deposit ratios ranging from 50.68 percent to 81.08 percent over the same time period. Although the bank=s loan-to-deposit ratio is somewhat lower than other comparable banks, it is reasonable given management=s philosophy, the institution=s size and resources, the credit products the bank offers, and its effort to meet assessment area credit needs.

The following table depicts the bank=s loan portfolio according to the September 30, 1996 Consolidated Reports of Condition and Income (Call Report).

THE BANK=S LOAN PORTFOLIO		
<i>Loan Type</i>	<i>Amount (\$000)</i>	<i>Percent of Total</i>
Farmland or agricultural	7,411	82
Multiple and 1- to 4-family real estate	322	4
Commercial	412	5
Consumer	600	6
Nonfarm nonresidential	0	0
Construction and land development	44	1
Other	215	2
<i>TOTAL</i>	9,004	100

As shown in the above table, the bank=s loan portfolio is concentrated in loans secured by farmland and for agricultural production. Although the consumer loan portfolio is a smaller percentage of the outstanding dollar amount, the bank provides a large amount of consumer loans for its community.

The assessment area is experiencing a significant housing shortage which impacts the demand for residential real estate loans. Since the previous examination, the bank has originated two secondary market loans totaling approximately \$120,000.

The bank does not participate directly in the Nebraska Investment Finance Authority (NIFA) program for low- and moderate-income home buyers. However, the bank has referred three applicants for NIFA loans to an affiliate bank. There is a need for home improvement loans, and the bank strives to meet this need through its real estate and consumer loan products. The bank also participates in the Nebraska Energy program. Energy loans are used to fund any number of home, building, and system improvements, while receiving low-cost financing with up to ten years to repay.

Lending Within Assessment Area

A substantial majority of the bank's lending occurs inside its assessment area. The analysis included a sample of 6 real estate loans and 33 consumer loans originated since the previous examination. In addition, 100 percent of business and agriculture loans originated from January 1 through December 31, 1996, were included in the analysis. The sample of business and agriculture loans totaled 20 and 166, respectively. The table below demonstrates, by general product type, the percentage of loans reviewed that were located within the bank's assessment area. Overall, 98 percent of the loans reviewed were within the assessment area.

<i>LOANS WITHIN THE BANK'S ASSESSMENT AREA</i>	
<i>LOAN TYPE</i>	<i>PERCENTAGE</i>
Residential	67
Consumer	94
Small Farm	100
Small Business	100
Total Loans	98

Geographic Distribution of Loans

The bank=s geographic distribution of loans by income level of census tracts reflects adequate penetration in its assessment area. However, as noted, the assessment area consists entirely of middle-income BNAs. Consequently, no meaningful analysis of the geographic distribution of loans by income level of census tracts was possible.

Borrowers= Profile

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and small businesses and small farms. The bank has only made eight real estate loans since the last examination due to the lack of housing for sale in the assessment area and the resulting low loan demand.

Six real estate loans were included in the analysis, of which two loans were to moderate-income persons and the remaining two loans in the analysis were to middle- and upper-income persons. Consequently, the significance of the analysis for consumer real estate loans is limited. As illustrated in the table below, the distribution of consumer loans to low- and moderate-income families is greater than the percentage of low- and moderate-income families in the assessment area.

PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE BANK=S ASSESSMENT AREA		
<i>Income Level of Borrower</i>	<i>Percentage of Consumer Loans Reviewed</i>	<i>Percentage of Families in the Bank=s Assessment Area</i>
Low (<50 percent of median)	26	18
Moderate (50 to 80 percent of median)	29	21
Middle (80 to 120 percent of median)	29	31
Upper (>120 percent of median)	29	30
Total	100	100

The sample of loans reviewed demonstrates, based on the amount of revenue, that 100 percent of commercial and agricultural loans were made to small businesses and small farms.

Small businesses and small farms are defined as having gross annual revenues of \$1MM or less. Furthermore, as shown in the table below, the distribution of loans in the various loan value categories reflects a substantial dispersion of loans under \$100M to small businesses and small farms.

DISTRIBUTION BY LOAN AMOUNT OF ORIGINATED SMALL BUSINESS AND SMALL FARMS LOANS				
	<i>Small Business</i>		<i>Small Farm</i>	
Loan Value Category	Count	Amount (\$000)	Count	Amount (\$000)
+= \$100,000	17	354	157	2,745
, \$100,000 and += \$250,000	1	200	5	910
, \$250,000	2	2,250	4	30,265
Total	20	2,804	166	33,920

The bank has demonstrated its responsiveness to credit needs of low-income persons, small businesses and small farms in other ways, also. The bank makes government guaranteed loans under the Small Business Administration (SBA) loan program whenever requested. The bank originated one SBA loan for \$90M since the previous examination. Bank management will also assist borrowers with the paperwork throughout the application process for both SBA and NIFA loans.

In addition, the bank makes many small-dollar consumer loans for amounts ranging from \$300 to \$1,000 to lower-income borrowers. The bank also offers overdraft lines of credit in amounts as low as \$500. Although the bank does not originate credit card loans, applications are provided in the bank=s lobby for origination through an affiliate bank. In addition, the numerous small business and small farm loan originations promote economic development within the bank=s assessment area.

Community Development Loans

Community development lending opportunities are limited within the bank=s assessment area. Therefore, the bank has no qualified community development loans as defined under the CRA.

Product Innovation

The bank uses flexible lending practices in order to serve the assessment area credit needs. Since the previous examination, the bank initiated two special lower-rate loan programs for automobile loans and agricultural equipment loans. The automobile loan program ran for three months during the summer of 1996. Seven new loans totaling \$83,655 were originated under this program. The agricultural equipment loan program started in December 1996 and is currently in progress. To date, this program has resulted in the origination of three new loans totaling \$104,800.

INVESTMENT TEST

The bank's participation in qualified community development investments is adequate based upon the limited opportunities within the assessment area and the relatively small size and available resources of the bank. The bank's investments consist primarily of contributions made to local organizations.

Investment and Grant Activity

There are few opportunities for the bank to make qualified investments. Although the bank's investment portfolio contains municipal bonds, the funds are not considered qualified investments under the CRA. In addition, none of the geographies within the community have been designated low- or moderate-income areas. Furthermore, there are very few organizations within the community that are involved primarily in community development programs that benefit low- and moderate- income individuals.

Responsiveness to Credit and Community Development Needs

The bank participated in the Palmer Housing Partnership which resulted in the construction of a home for a low-income, first-time home buyer. The partnership was formed by the bank and a local builder to alleviate some of the severe housing shortage in the community. In addition to providing financing for the construction of the home, the bank donated \$680.75 for construction costs. The bank also assisted the buyer in completing the paperwork for NIFA financing through another area lender. Due to the success of the first home construction and sale, the bank anticipates the Palmer Housing Partnership will construct a

second home during 1997.

Community Development Initiatives

State Bank initiated the Palmer Community Fund with a donation of \$2,000. The funds are earmarked for low-income, indigent persons within the assessment area. The local schools and churches were notified of the availability of the fund and encouraged to refer individuals and families having a need for assistance from this fund.

SERVICE TEST

Based upon the bank's size and resources, there is an adequate level of bank systems for delivering retail banking services that are accessible to the community. Services do not vary in a way that inconveniences certain portions of the community, particularly low- and moderate-income individuals. Also, the innovativeness of community development services satisfactorily serves the bank's assessment area.

Retail Banking Services

The bank's one facility is located in downtown Palmer, Nebraska. This facility is reasonably accessible to the assessment area. The hours are 9 a.m. to 3 p.m., Monday through Thursday; 9 a.m. to 5 p.m. on Friday; and 8:30 a.m. to 11:30 a.m. on Saturday morning. Although the bank does not have an on-site ATM, customers can utilize nonproprietary ATMs. There is also a night depository at the bank. Bank officers frequently meet customers in the evening and on weekends by appointment, as requested.

The bank has not closed any offices, and there are no plans to add any additional facilities in the future.

State Bank offers an adequate number of innovative or flexible products to serve its community, particularly given its small size and rural location. In addition to telephone banking and bank-by-mail, the bank offers a VISA debit card that allows for 24-hour cash access. In addition, the bank offers overdraft checking which may also be tied to the debit card. The bank has opened five overdraft accounts since the previous examination. The bank also introduced personal computer (PC)-based banking for businesses and individuals. Currently, the bank has 60 PC-based accounts, of which the majority are for individual use. Since the previous examination, the bank has introduced a free checking account product, the

Choice account, and has opened approximately 25 Choice accounts.

Community Development Services

Bank management has taken a proactive role in addressing issues to enhance the need for home improvement and renovation of the Palmer community. Bank officers provided financial expertise to the Village of Palmer in applying for a Nebraska Community Development Block Grant of \$200,000 for housing rehabilitation. The grant funds were to be utilized solely for low- and moderate-income households. Unfortunately, the grant was not awarded. However, the bank will assist with the reapplication for these funds in 1997.

In addition, CRA Officer Sharon Tibbetts serves as the Clerk for the Village of Palmer. Bank officers also provide financial expertise to community and educational organizations.

Furthermore, President Jerry Lentfer also offers small business and small farm financial counseling to customers and potential customers. In addition, the bank also provided use of the bank facility for three small farm product presentations to the community. The presentations were conducted by Gold Harvest Seed Company and Ralston Purina Company.

No substantive violations of the antidiscrimination laws and regulations were reported. Furthermore, review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.

APPENDIX A

SCOPE OF EXAMINATION State Bank		
TIME PERIOD REVIEWED		9/25/95 - 2/03/97
FINANCIAL INSTITUTION		
NAME		PRODUCTS REVIEWED
State Bank Palmer, Nebraska		Residential Real Estate Loans Small Business Loans Small Farm Loans Consumer Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bancorp, Inc., Central City, NE	Bank Holding Company	None
Bank of Colorado - Front Range, Windsor, CO	Bank Holding Company	None
Bank of Colorado - Western Slope, Grand Junction, CO	Bank Holding Company	None
Pinnacle Bank, Papillion, NE	Bank Holding Company	None
Citizens Bank and Trust Company, Torrington, WY	Bank Holding Company	None
Havelock Bank, Lincoln, NE	Bank Holding Company	None
Crete State Bank, Crete, NE	Bank Holding Company	None
The Farmers State bank and Trust Company, Aurora, NE	Bank Holding Company	None
Farmers State Bank and Trust Company, Lexington, NE	Bank Holding Company	None
First National Bank, Abilene, KS	Bank Holding Company	None
First National Bank, Worland, WY	Bank Holding Company	None
The First National Bank, Shelby, NE	Bank Holding Company	None
First Security Bank, Newcastle, WY	Bank Holding Company	None
The First Security Bank of Craig, Craig, CO	Bank Holding Company	None
The First Security Bank, Fort Lupton, CO	Bank Holding Company	None
First United Bank, Neligh, NE	Bank Holding Company	None
Schuyler State Bank and Trust Company, Schuyler, NE	Bank Holding Company	None
Western Bank of Cody, Cody, WY	Bank Holding Company	None
Archer, Inc., Central City, NE	Bank Holding Company	None
Osceola Insurance, Inc., Central City, NE	Bank Holding Company	None
Gretna State Bank, Gretna, NE	Bank Holding Company	None
First National Bank of Osceola, Osceola, NE	Bank Holding Company	None
Central Grain, Inc., Central City, NE	Bank Holding Company	None
Farmers National Bank of Central City,	Bank Holding Company	None

Central City, NE Dinsdale Brothers, Inc., Central City, NE The First National Bank of Wisner, Wisner, NE First Security Bank, Mitchell, NE Guaranty Corporation, Denver, CO Guaranty Bank and Trust Company, Denver, CO Pinnacle Bancorp, Iowa, Sioux City, IA Morningside Bank and Trust, Sioux City, IA	Bank Holding Company Bank Holding Company Bank Holding Company Bank Holding Company Bank Holding Company Bank Holding Company Bank Holding Company	None None None None None None None	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Nebraska Three BNAs, including 9705, 9867, and 9861 in Howard, Merrick, and Nance Counties, respectively	On-Site	Not Applicable	